

Four Hidden Costs of Managing Compliance for the Summary Prospectus In-House

In the five years since the Securities and Exchange Commission (SEC) enacted Rule 498 to allow mutual funds to issue summary prospectuses, over 80% of all funds have adopted it. Investors have benefited from receiving 4-6 page documents in plain English, with links to the full information on their fund company's website, rather than traditional 30-50 page statutory prospectuses. Many firms manage the distribution of these summary prospectuses and upkeep of the related websites in-house via a painstaking manual process. However, these firms may not be aware of how much this effort is costing them in terms of time and resource commitment, and whether they are truly complying with Rule 498 and delivering a positive investor experience.

To address these challenges, some things for firms to keep in mind include:

- Managing for swift technology change and a changing investor expectation for receiving digital content on mobile devices
- Monitoring filing updates on EDGAR, and ensuring the documents sent to investors match what is on the website
- Re-checking the box on SEC Rule 498 requirements for the summary prospectus, integrating digital print-on-demand (POD) and website maintenance
- Performing a cost/benefit analysis to determine if handling summary prospectus in-house still makes fiscal sense

1. Keeping up with technology

The first iPad was introduced in April 2010 – one year after the SEC's Summary Prospectus Rule became effective. By the end of 2013, tablet shipments surpassed desktop personal computer and notepad shipments globally. And by 2017, 87% of the worldwide smart connected devices will be tablets and smartphones, with PCs - both desktops and laptops - being 13% of the market (source: International Data Corporation).

The rapid adoption of smart mobile technologies has led to a myriad of web browser launches, changes and updates, all of which should be supported. Big fund managers have already taken notice. According to a May 2014 report by Ignites Distribution Research, of the 15 largest managers of long-term mutual funds and ETFs, 93% now offer some type of mobile access, either a mobile-optimized website or a

According to Ignites Distribution Research, 14 of the 15 largest fund managers now have some type of mobile access such as an optimized website or mobile app. Unfortunately, the rest of the fund channel is lagging behind and have issues with document access and display for mobile device users.



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But fund companies have fewer funds to manage—so what's this mean on a more micro level? Actually, the pace of change may surprise you. Below are two examples of more recent fund filing activity for two different fund companies:

- During Q1 2014 a large fund company with 570 active funds had 2.2% of its funds affected on average daily (12 funds), and 58% affected on the busiest day (331).
- During the same time period, a mid-size fund company (190 active funds) had 1.7% of their funds affected on average daily (3 funds), and 49.5% affected on the busiest day (94 funds).

The need to update a fund's public website with the most recent EDGAR filings poses several challenges. First, there's the issue of version control. If the documents are created in house, there may be multiple versions. The firm needs to have an effective process to make certain the document it posts is the most recent filing on EDGAR, and that there is consistent presentation to customers via print, e-delivery and on the web.

When there is a new filing on EDGAR, the firm needs to be able to update the public website the next business day, or in a timely manner, ensuring that all the supplements associated with the fund CUSIP are available online and that they are associated to the correct fund. For example, if a supplement affects multiple funds, it needs to be associated with all of them.

3. Keeping up with SEC requirements and website maintenance

You've kept up with technology. You've monitored compliance filings. There's still more work to do. A fund company's in-house

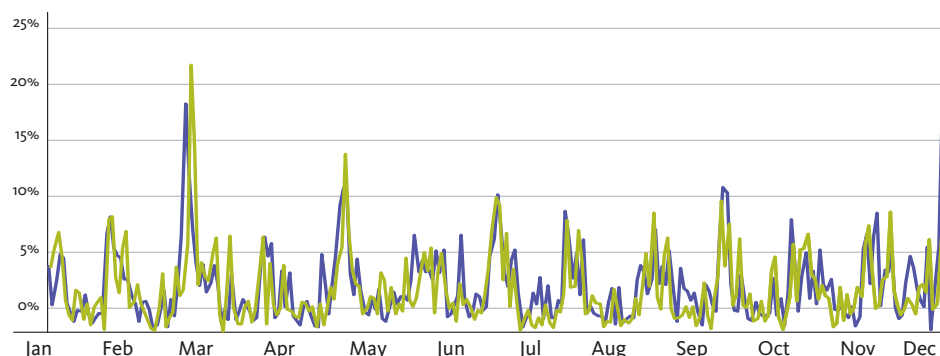
team needs to be able to check the box on all these Summary Prospectus Rule requirements while ensuring the website is available 24/7:

- ☑ A website with free, direct access to disclosure documents
- ☑ For each fund, all related disclosure documents – summary prospectus, statutory prospectus, statement of additional information (SAI), semi-annual and annual reports, and any related supplements – must also be available on this website
- ☑ Statutory and summary prospectuses, and SAIs, must each include a Table of Contents that is hyperlinked to support inner-document navigation
- ☑ A mechanism to support “back and forth” navigation within document sections and direct linking to external documents
- ☑ Ability to move within two clicks between the summary prospectus and other documents
- ☑ A phone number and email address for investors to request any of these documents in print or electronic form
- ☑ The ability to deliver requested documents, by paper or email, within 3 business days
- ☑ Continuous access to the current version of the document for 90 days (if delivered in paper format) or for 6 months (if delivered electronically)

DAILY SEC FUND CUSIP FILING ACTIVITY ON EDGAR (2012 AND 2013 CALENDAR YEARS)

Percentage of Mutual Fund, ETF and Variable Product CUSIPs that change on a daily basis

Year	# CUSIPs	Avg. Daily Change	Max. Daily Change	Min. Daily Change
2012	39,879	3.58%	16.27%	0.02%
2013	40,127	3.65%	20.21%	0.32%



On average, nearly 4% of all mutual fund, ETF and variable product CUSIPs are affected by new filings on EDGAR each day. On the busiest day, 20% of the fund CUSIPs are affected by filing changes on EDGAR – representing more than 8,100 fund CUSIPs.

mobile app. This is up from 80% of the top 15 last year. The Ignites report states, “Account access, transactional capabilities and pricing information are the dominant features offered by firms. These features are squarely within the realm of what an on-the-go investor might want, providing immediate access at opportunistic moments.”

Unfortunately, the rest of the fund channel is not adapting as quickly. According to a recent assessment of mid-size funds that manage summary prospectus in-house, 26 out of 31 (84%) had issues with their public websites regarding document accessibility and display (source: Broadridge Financial Solutions 2014).

Technology happens and leading firms need to adapt. If this is not done timely and effectively, what the investor sees on his/her desktop may not match what displays on his/her mobile device. For example, pages might not display correctly or links might be broken. That’s a bad customer experience and potential compliance risk should the SEC update Rule 498 requirements to include mobile devices.

Another layer of complexity lies in quality assurance and continuous process improvement. This includes establishing workflows for quality-checking document display across various web browsers and mobile devices. And quickly adapting to new technology as it is introduced to the market. The days of simply

posting PDFs on the website are going by the wayside. More dynamic digital platforms will require testing on a continual basis, as well as the ability to adapt to new and improved user interface functionality for access, navigation and search capabilities.

Best practices also dictate that firms track whether investors are accessing their site from mobile devices or from desktop computers. This ensures that their websites will continue to meet the visual display needs for their customers’ preferred devices. The bottom line: Keeping pace with new technology will remain a moving target requiring significant time and resources unless this function is outsourced.

2. Keeping up with EDGAR

Similar to technology, change happens frequently with compliance filings and it’s important to monitor. The volume of updates required industry-wide on a daily basis can be staggering and makes the process costly and difficult to manage manually. On average, new filings on EDGAR affect nearly 4% of all mutual fund, ETF and variable products each day. On the busiest day, filing changes on EDGAR affect 20% – representing over 8,100 funds.

MOBILE-OPTIMIZED WEBSITE FEATURES OFFERED BY LEADING FUND MANAGERS

	VANGUARD	FIDELITY	AMERICAN FUNDS	FRANKLIN TEMPLETON	T. ROWE PRICE	MFS	DODGE & COX
Link to Full Site	✓	✓	✓	✓	✓	✓	✓
Link to Mobile App	✓	✓					
Pricing/ Performance	✓	✓	✓	✓	✓		✓
Insights	✓	✓		✓		✓	✓
Prospectus Information	✓		✓	✓	✓		

Note: Includes mobile strategies and apps by U.S. asset manager division targeted to advisor and retail clients. Analysis conducted of sites and apps prior to login. Excludes events apps and other specialized strategies. Source: Ignites Distribution Research.

Even if you're checking all the boxes, there are additional things to keep in mind:

- 1) Do you have a central consolidated library to support offset print, digital print-on-demand, e-delivery and website display?
- 2) Do you have a process in place to ensure consistent display of your summary prospectus and other compliance documents? For example, making sure the documents that you send out in print, e-delivery or post on the web are the same.
- 3) Do you have the ability to cross-reference private hosted documents against the most recent filing on EDGAR? For example, making sure the documents your Legal team files on EDGAR matches the documents your Marketing and Procurement team are delivering to your customers.
- 4) Do you have an archival system set up that allows you to retrieve historical versions of a summary prospectus delivered going back up to seven years? Though not required, this capability is convenient and saves time for auditing purposes.

4. Keeping up with the REAL costs of your in-house manual process

Once you've done all of this, it's time to step back and determine "what's all of this costing me?" After all, it's been five years since you implemented the summary prospectus. Are you still doing it right, and is your approach the most cost-effective, compliant and investor friendly? Here are some considerations to include in your cost/benefit analysis:

- ☒ Confirm you are meeting all requirements of Rule 498
- ☒ Maintain documents, coordinate with Legal and Marketing teams to ensure documents mailed are the same as posted on the website
- ☒ Check documents to make sure they reflect the latest filings on EDGAR
- ☒ Ensure consistency of document delivery across all customer-facing media: print fulfillment, e-delivery and web display
- ☒ Post the latest SEC filings promptly on the website – within one business day is ideal
- ☒ Apply linking and layering methodology to all existing documents and new filings, and run quality assurance tests as changes are made, as well as periodically
- ☒ Have the IT group track new web browsers and devices to make sure your website displays properly on these, and all functionality works and continues to be compliant

- ☒ Have redundant, stable servers and a disaster recovery plan in place should the servers go down
- ☒ Maintain reports to track your due diligence and performance such as:
 - Uptime
 - System performance
 - Who is clicking what documents
 - Historical reporting by document type or customer
- ☒ Implement an archival capability, enabling historical queries for individual document deliveries up to seven years prior

Look beyond your manual process to overcome hidden costs

Adding up the hours, resources and technology required to continue to manage the summary prospectus process in-house is a useful exercise since it may cost more than you realized. It makes sense to conduct a cost-benefit analysis to see if you'd be better served outsourcing this time-consuming, manual process. Companies who have successfully shifted to managing summary prospectus with a trusted partner have reduced costs, maintained solid compliance and delivered a better investor experience.

About the author: Gavin Long is a Product Manager at Broadridge Financial Solutions where he oversees the Summary Prospectus Web Hosting and FundPOINT® Data and Desktop product lines. Mr. Long has over ten years of experience working in the insurance industry and is an active member of the Insured Retirement Institute's Research Committee.

About Broadridge

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